

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Harbor-Petoskey Area Airport Authority	County Emmet
Fiscal Year End 6/30/2007	Opinion Date 1/16/2008	Date Audit Report Submitted to State 1/17/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**SE** **NO** Check each applicable box below (See instructions for further detail)

- 1 ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary
- 2 ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- 3 ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- 4 ☒ ☐ The local unit has adopted a budget for all required funds
- 5 ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- 6 ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- 7 ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- 8 ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements
- 9 ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- 10 ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover
- 11 ☒ ☐ The local unit is free of repeated comments from previous years
- 12 ☒ ☐ The audit opinion is UNQUALIFIED
- 13 ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP)
- 14 ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute
- 15 ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143	
Street Address 902 S. HURON STREET, PO BOX 250		City CHEBOYGAN	State MI
		Zip 49721	
Authorizing CPA Signature 		Printed Name ANNETTE EUSTICE, CPA, CGFM	License Number 1101019667

**HARBOR-PETOSKEY AREA  
AIRPORT AUTHORITY**

**HARBOR SPRINGS, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2007**

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

January 16, 2008

Members of the Board  
Harbor-Petoskey Area Airport Authority  
Harbor Springs, Michigan

We have audited the accompanying basic financial statements of the **Harbor-Petoskey Area Airport Authority** (the "Authority"), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I - IV is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of **Harbor-Petoskey Area Airport Authority** (the "Authority"), a non-profit Michigan corporation located in Emmet County, Michigan, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) government-wide financial statements (same as fund financial statements) and 2) notes to the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions of the Authority that are principally supported by charges for services and member appropriations (*business-type activities*).

**Proprietary funds.** The Authority is a proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Authority uses the enterprise fund to account for its airport operations. Proprietary funds provide the same type of information as the government-wide financial statements.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. These notes to the financial statements can be found on pages 6-13 of this report.

### Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$1,538,154 at the close of fiscal 2007.

Approximately 90% of the Authority's net assets reflect its investment in net capital assets. The Authority uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets (\$126,301) may be used to meet the Authority's ongoing obligations to its creditors.

**Harbor-Petoskey Area Airport Authority**  
**Condensed Statement of Net Assets**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets	\$ 184,328	\$ 184,953
Capital assets, net of accumulated depreciation	<u>1,411,853</u>	<u>1,038,310</u>
<b>Total assets</b>	<b><u>1,596,181</u></b>	<b><u>1,223,263</u></b>
<b>Liabilities</b>		
Current liabilities	<u>58,027</u>	<u>45,215</u>
<b>Net assets</b>		
Invested in capital assets	1,411,853	1,038,310
Unrestricted	<u>126,301</u>	<u>139,738</u>
<b>Total net assets</b>	<b><u>\$ 1,538,154</u></b>	<b><u>\$ 1,178,048</u></b>

At June 30, 2007, the Authority was able to report positive balances in both categories of net assets.

**Harbor-Petoskey Area Airport Authority**  
**Condensed Statement of Change in Net Assets**

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 794,480	\$ 684,924
Operating expenses	<u>844,305</u>	<u>788,770</u>
<b>Operating loss</b>	<b>(49,825)</b>	<b>(58,479)</b>
Non-operating income	<u>409,931</u>	<u>552,335</u>
<b>Change in net assets</b>	<b>360,106</b>	<b>493,856</b>
Net assets, beginning of year	<u>1,178,048</u>	<u>684,192</u>
<b>Net assets, end of year</b>	<b><u>\$ 1,538,154</u></b>	<b><u>\$ 1,178,048</u></b>

As shown above, the current year operating loss was \$49,825. Operating revenues are directly related to operating expenses. The Authority relies on member appropriations each year from local units of government to help offset costs. The Authority experienced an increase in net assets during fiscal 2007 primarily due to Michigan Department of Transportation grants for airport improvements.



## Capital Assets

At June 30, 2007, the Authority had \$1,411,853 invested in capital assets. The following table summarizes the capital asset activity for the year:

	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2007</b>
Assets not being depreciated	\$ 50,940	\$ 81,000	\$ (49,820)	\$ 82,120
Assets being depreciated	<u>1,348,805</u>	<u>417,792</u>	<u>-</u>	<u>1,766,597</u>
<b>Total capital assets</b>	<b>1,399,745</b>	<b>498,792</b>	<b>(49,820)</b>	<b>1,848,717</b>
Less accumulated depreciation	<u>361,435</u>	<u>75,429</u>	<u>-</u>	<u>436,864</u>
<b>Net capital assets</b>	<b><u>\$ 1,038,310</u></b>	<b><u>\$ 423,363</u></b>	<b><u>\$ (49,820)</u></b>	<b><u>\$ 1,411,853</u></b>

Capital asset additions included the completion of the parallel taxiway improvements, construction of taxi streets and construction of a parking lot during fiscal 2007. During fiscal 2007, the Authority also entered into two new contracts with the Michigan Department of Transportation, Bureau of Aeronautics (MDOT).

The Authority contracted with MDOT for the design of a terminal building in the amount of \$90,000 including a local match of \$4,500. At June 30, 2007, construction in progress on this project was \$53,840.

On June 6, 2007, the Authority contracted with MDOT for the construction of a ten-unit t-hanger building. Total costs of the project are expected to be approximately \$370,000. State grants from MDOT will fund approximately \$200,000 of the project costs. The Authority has secured PA 99 financing through First Community Bank for up to \$170,000 to complete the project. At June 30, 2007, construction in progress on this project was \$22,260. No draws on the construction loan had been made through June 30, 2007. As of December 31, 2007, MDOT had fully funded the project and the Authority had drawn approximately \$132,500 on the loan.

## Economic Factors

The Authority is a small local airport that relies primarily on fuel sales, various rentals and fees and appropriations from participating local units of government for its support. The participating units include the City of Petoskey, City of Harbor Springs and the Townships of Bear Creek, Little Traverse, West Traverse and Pleasantview. Each municipality pays up to .03 mills on the taxable value of the municipality. In the current year, the Authority levied .028 mills.

The 2007/2008 budget projects continued growth in taxable property values which will result in increased member appropriations. The budget includes expenses similar to the Authority's fiscal 2007 expenses with minimal variations.

**Financial Contact**

The Authority's financial statements are designed to present users with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Chairman of the Board of Harbor-Petoskey Area Airport Authority, 8479 M-119 Highway, PO Box 274, Conway, MI 49722.

## **BASIC FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## STATEMENT OF NET ASSETS

JUNE 30, 2007

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### Assets

#### Current assets

Cash and cash equivalents	\$ 51,443
Accounts receivable	78,975
Inventory	40,484
Prepaid expenses	<u>13,426</u>

**Total current assets** **184,328**

#### Noncurrent assets

Capital assets not being depreciated	82,120
Capital assets, net of depreciation	<u>1,329,733</u>

**Total noncurrent assets** **1,411,853**

**Total assets** **1,596,181**

### Liabilities

#### Current liabilities

Accounts payable	48,756
Accrued expenses	562
Unearned revenue	<u>8,709</u>

**Total liabilities** **58,027**

### Net assets

Investment in capital assets	1,411,853
Unrestricted	<u>126,301</u>

**Total net assets** **\$ 1,538,154**

The accompanying notes are an integral part of these financial statements.

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

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### Operating revenues

Gasoline and oil sales	\$ 674,586
Appropriations	48,263
Hangar rent	18,520
Landing fees	17,148
Tie down and parking fees	12,902
Leases	13,709
Store sales	2,681
Car rental commissions	3,015
Other	3,656

<b>Total operating revenues</b>	<b>794,480</b>
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### Operating expenses

Gasoline and oil	523,341
Salaries and wages	95,720
Payroll taxes	7,810
Employee benefits	44,515
Administrative expense	1,805
Maintenance	22,491
Equipment expense	531
Store merchandise	2,506
Equipment rental	421
Insurance	28,896
Professional fees	10,769
Depreciation	75,429
Credit card fees	18,487
Utilities	5,967
Telephone	2,320
Office supplies expense	62
Other expense	3,235

<b>Total operating expenses</b>	<b>844,305</b>
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<b>Operating loss</b>	<b>(49,825)</b>
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### Non-operating revenues

State contributions	407,489
Interest income	2,442

<b>Total non-operating revenues</b>	<b>409,931</b>
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<b>Change in net assets</b>	<b>360,106</b>
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Net assets, beginning of year	1,178,048
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<b>Net assets, end of year</b>	<b>\$ 1,538,154</b>
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The accompanying notes are an integral part of these financial statements.

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

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<b>Cash flows from operating activities</b>	
Cash collected from customers	\$ 768,013
Cash collected from member appropriations	48,263
Cash paid for employee wages and benefits	(95,720)
Cash paid for other operating expenses	<u>(669,769)</u>
<b>Net cash provided by operating activities</b>	<b>50,787</b>
 <b>Cash flow used in capital and related financing activities</b>	
Purchase of property and equipment	<b>(41,483)</b>
 <b>Cash flows provided by investing activities</b>	
Interest income	<u>2,442</u>
 <b>Net increase in cash and cash equivalents</b>	<b>11,746</b>
 Cash and cash equivalents, beginning of year	<u>39,697</u>
 <b>Cash and cash equivalents, end of year</b>	<b><u>\$ 51,443</u></b>
 <b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (49,825)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	75,429
Changes in operating assets and liabilities which provided (used) cash	
Accounts receivable	14,909
Inventory	(82)
Prepaid expenses	(2,456)
Accounts payable	7,626
Accrued expenses	(1,701)
Unearned revenue	<u>6,887</u>
 <b>Net cash used in operating activities</b>	<b><u>\$ 50,787</u></b>
 <b>Non-cash capital and related financing transactions</b>	
Acquisition of airport improvements from State of Michigan contributions	<b><u>\$ 407,489</u></b>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**



# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The *Harbor-Petoskey Area Airport Authority* (the “Authority”) is a non-profit Michigan corporation created January 13, 1988 under the authority of Act 206, Michigan Public Acts of 1957, as amended. The purpose of the Authority is to plan, promote, construct, improve, own (or lease), maintain and operate an airport for the benefit of the participating local units of government by providing services to airport users. A board consisting of one member of the following local units of government, all located in Emmet County, Michigan, governs the Authority:

City of Petoskey  
City of Harbor Springs  
Township of Bear Creek

Township of Little Traverse  
Township of West Traverse  
Township of Pleasantview

The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles. The basic, but not the only, criteria for including an agency, institution, authority or other organization in the governmental unit’s reporting entity is the exercise of oversight responsibility over such agency by the governmental unit’s elected officials. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. Based on these criteria the reporting entity includes only the Harbor-Petoskey Area Airport Authority.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the Authority. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority had no *governmental activities* during the year ended June 30, 2007.

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### **C. Measurement focus, basis of accounting, and financial statement presentation**

*Government-wide, Proprietary Fund Financial Statements.* The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as gas and oil sales, hangar rentals, and other related revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as appropriations and investment earnings, result from non-exchange transactions or ancillary activities.

Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue is recognized in the financial year for which it is earned. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed for proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's proprietary fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting that definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### D. Assets, Liabilities and Net Assets or Equity

#### 1. *Deposits*

The Authority's cash and cash equivalents are considered to be demand deposits.

#### 2. *Receivables*

All receivables are reported at their gross value net of an estimated allowance for uncollectible accounts, when applicable.

#### 3. *Inventory*

Inventory consists of airplane fuel and other merchandise available for resale, and is reported at the lower of cost or market on a first-in, first-out basis.

#### 4. *Prepaid Expenses*

Prepaid expenses consist of payments made to vendors for services that will benefit future periods. The Authority's prepaid expenses include amounts expended for insurance coverage that extends into the ensuing fiscal period.

#### 5. *Capital Assets*

Capital assets are defined by the Authority as assets that are used in operation and have an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are purchased or constructed. Capital assets of the Authority are depreciated using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Land improvements	20 years
Buildings and improvements	40 years
Other leasehold improvements	20 years
Vehicles	5-7 years
Equipment	5 years

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### **6. *Compensated absences***

Authority employees are not allowed to accumulate sick leave or compensatory time. The Authority has no measurable liability for compensated absences.

### **7. *Federal Income Taxes***

The Authority is exempt from federal income taxes under Section 115 of the Internal Revenue Code. It qualifies as a non-profit municipal organization formed to maintain an airport on land owned by a municipality, and it serves the general public consistent with Revenue Rule 8-429, 1978-CD 178.

### **8. *Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

The Authority adopts an annual budget each year for expenses applicable to the Proprietary Fund. The operating budget includes proposed expenses and the means of financing them and is stated on a basis consistent with accounting principles generally accepted in the United States of America. Budgets lapse at fiscal year end.

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### 3. DETAILED NOTES ON ALL FUNDS

#### A. Deposits

The Authority is authorized by state statutes to invest surplus funds in the following:

- (a) Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In banker's acceptances of United States banks.
- (e) Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (g) External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Authority's investment policy allows for all of these types of investments.

The Authority maintains interest-bearing checking and saving accounts at a bank.

Deposit balances as of June 30, 2007 consisted of cash and cash equivalents of \$51,443. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, the Authority's bank balance of \$77,909 was not exposed to custodial credit risk because it was insured and collateralized.

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### B. Capital Assets

Capital assets activity was as follows for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated</b>				
Land	\$ 1,120	\$ -	\$ -	\$ 1,120
Construction in progress	<u>49,820</u>	<u>81,000</u>	<u>(49,820)</u>	<u>81,000</u>
<b>Total capital assets not being depreciated</b>	<u><b>50,940</b></u>	<u><b>81,000</b></u>	<u><b>(49,820)</b></u>	<u><b>82,120</b></u>
<b>Capital assets being depreciated</b>				
Land improvements	1,145,268	417,792	-	1,563,060
Buildings and improvements	61,694	-	-	61,694
Other leasehold improvements	59,535	-	-	59,535
Vehicles	61,513	-	-	61,513
Equipment	<u>20,795</u>	<u>-</u>	<u>-</u>	<u>20,795</u>
<b>Total capital assets being depreciated</b>	<u><b>1,348,805</b></u>	<u><b>417,792</b></u>	<u><b>-</b></u>	<u><b>1,766,597</b></u>
<b>Accumulated depreciation</b>				
Land improvements	(245,977)	(63,050)	-	(309,027)
Buildings and improvements	(16,698)	(1,543)	-	(18,241)
Other leasehold improvements	(37,925)	(2,861)	-	(40,786)
Vehicles	(43,197)	(7,110)	-	(50,307)
Equipment	<u>(17,638)</u>	<u>(865)</u>	<u>-</u>	<u>(18,503)</u>
<b>Total accumulated depreciation</b>	<u><b>(361,435)</b></u>	<u><b>(75,429)</b></u>	<u><b>-</b></u>	<u><b>(436,864)</b></u>
<b>Total capital assets being depreciated, net</b>	<u><b>987,370</b></u>	<u><b>342,363</b></u>	<u><b>-</b></u>	<u><b>1,329,733</b></u>
<b>Capital assets, net</b>	<u><b>\$ 1,038,310</b></u>	<u><b>\$ 423,363</b></u>	<u><b>\$ (49,820)</b></u>	<u><b>\$ 1,411,853</b></u>

# HARBOR-PETOSKEY AREA AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### 4. OTHER INFORMATION

#### A. Leases

*Hangar Rentals* – The Authority, as part of its normal operating procedures, leases airplane storage to airport users. Leases are entered into on an annual basis with rents being paid monthly. Hanger rental revenue generated during the year ended June 30, 2007 was \$18,520.

*Other Leases* – The Authority receives certain revenues derived from the lease of land. Under the provisions of these leases, the tenants were permitted to construct or maintain facilities restricted for their exclusive use which are separate and apart from normal airport facilities. Revenue generated during the fiscal year ended June 30, 2007 was \$13,709. The Authority is not committed to maintain facilities or expend funds under these lease arrangements.

The Authority leases airport facilities including land, buildings and certain equipment from the City of Harbor Springs (\$1 per year). The lease is for 25 years and automatically renews each year for an extension of one year. The lease obligates the Authority to operate and maintain the airport in conformance with federal and state guidelines and regulations, and to promote and develop the airport for the benefit of the community. Either party can opt to not extend the lease beyond the 25 years; however, the Authority anticipates the lease will be renewed annually.

#### B. Risk management

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

#### C. Commitments

In August, 2006, the Authority entered into a contract with MDOT for the design of a terminal building. The estimated cost of the project is \$90,000. State grants will pay \$85,500 of the cost and the remaining \$4,500 is to be paid by the Authority. As of June 30, 2007, project expenditures total \$58,340.

# **HARBOR-PETOSKEY AREA AIRPORT AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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On June 6, 2007, the Authority contracted with MDOT for the construction of a ten-unit t-hanger building. Total costs of the project are expected to be approximately \$370,000. State grants from MDOT will fund approximately \$200,000 of the project costs. The Authority has secured PA 99 financing through First Community Bank for up to \$170,000 to complete the project. At June 30, 2007, construction in progress on this project was \$22,260. No draws on the construction loan had been made through June 30, 2007. As of December 31, 2007, MDOT had fully funded the project and the Authority had drawn approximately \$132,500 on the loan.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

January 16, 2008

Board of Directors  
Harbor-Petoskey Area Airport Authority  
Harbor Springs, Michigan

We have audited the basic financial statements of the *Harbor-Petoskey Area Airport Authority* (the "Authority") as of and for the year ended June 30, 2007 and have issued our report thereon dated January 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the Authority, and the Authority's Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.